Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of	)	
	)	
Regulatory Reform for Local Exchange Carriers Subject to Rate of Return Regulation	)	CC Docket No. 92-135

REPLY COMMENTS OF CENTRAL TELEPHONE COMPANY

I. INTRODUCTION

Central Telephone Company ("Centel"), on behalf of itself and its affiliated local exchange carriers ("LECs"), hereby submits this reply to the comments filed in response to the Notice of Proposed Rulemaking, FCC 92-258, released July 17, 1992 ("Notice") in the above-referenced proceeding. In these reply comments, Centel supports the comments which favor giving additional incentives to LECs which have previously operated efficiently to continue to develop and maintain an advanced telecommunications infrastructure; allowing LECs under the incentive plan to give exogenous treatment of Long Term Support obligations; and allowing LECs under baseline rate of return regulation to renew their tariffs for the second year by certifying that they do not expect their current rates to earn in excess of the maximum allowable return. Centel opposes the comments which favor excluding "known and measurable" costs from LEC tariff filings.

II. DISCUSSION

A. Optional Incentive Regulation Plan

1. Efficient LECs Should Be Given Additional Incentive To Continue To Develop The Network.

In its comments, Centel urged the Commission to take into account the existing differences in efficiency and rates among LECs in implementing regulatory reform. As the Commission acknowledged in the Notice, small and mid-sized LECs vary substantially in efficiency, investment in network upgrades, and rates. Notice at ¶ 2. Centel asserted that since it has already implemented many significant network improvements, Centel does not have the same opportunities as less efficient LECs do to reduce costs.[1/]

Centel's view was echoed in the comments filed by the Concord Telephone Company ("Concord").[2/] Concord observed that LECs which have previously operated more efficiently may actually experience lower earnings under incentive regulation because they have very little fat to trim.[3/] To provide additional incentives to such LECs, Concord proposed that LECs which operate with costs significantly below the national average when adjusted

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[1/] Centel noted that it has already reduced its operating costs and improved efficiency and the quality of its services through the deployment of digital technologies and other network upgrades. Due to these network improvements, Centel's average interstate access rates rank among the lowest in the nation.

[2/] Comments of Concord at p. 2.

[3/] Id.

by a factor for service territory density should be allowed to receive "bonus earnings".[4] In particular, Concord suggested:

> As an example of how this might work, companies wishing to qualify for bonus earnings might be allowed an additional ¼% return over and above the normal authorized return for each 10% their cost is below the national average for other carriers with similar line densities within their territories. These bonus earnings might be limited to 1% within any year and would be dependent upon certain minimum standards for service quality and technology deployment.[5]

Centel supports Concord's view that LECs which have previously operated efficiently should be given additional incentives to continue to develop and maintain an advanced telecommunications infrastructure and to provide high-quality service at reasonable rates. The bonus earnings proposal advanced by Concord has merit and should be given serious consideration as a possible component to the Commission's incentive regulation plan.

2. LECs Must Be Permitted To Include "Known And Measurable" Costs.

Under the Commission's proposal, a LEC participating in the incentive plan would be permitted to include in its biennial tariff filing "known and measurable" cost changes to the extent such costs would cause the LEC's earnings to fall below the minimum level. Notice at ¶ 14.[6] In its comments, American

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[4] Id.

[5] Id.

[6] If the LEC proves that its known and measurable costs would result in a shortfall, the LEC would be required to target its rates to recover revenues at the lower earnings limit. Id.

Telephone and Telegraph Company ("AT&T") offered several arguments in opposition to that proposal. For the reasons discussed below, those arguments should be rejected.

First, AT&T argues that the inclusion of known and measurable costs would essentially guarantee the LECs an up-front reimbursement of prospective costs that "may or may not actually materialize during the two-year tariff period."[7] However, if the Commission adopts the definition of known and measurable costs proposed by the United States Telephone Association ("USTA"), as Centel believes it should, the only cost changes that would qualify as known and measurable are those that could be objectively confirmed, for example by a signed contract or other documentation.[8] Thus, AT&T's assertion that known and measurable costs may not materialize is groundless.

Second, AT&T argues that the inclusion of known and measurable costs would complicate the tariff process because "large quantities of expense and investment information" would have to be analyzed by the Commission and interested parties.[9] The Commission's proposal to include known and measurable cost changes is designed to limit the number of changes proposed by LECs. For example, under the Commission's proposal, known and measurable costs will only be allowed to the extent that they

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7/ Comments of AT&T at p. 4.

8/ Comments of USTA at p. 15, n. 37.

9/ Comments of AT&T at p. 5.

bring the LEC's earnings to the lower earnings limit.[10] This requirement should limit the proposed changes to only the most significant and objectively confirmed known and measurable cost changes. Therefore, the tariff process will not be complicated by the inclusion of such costs.

Lastly, AT&T argues that allowing LECs to include known and measurable costs in their filings is unnecessary since, under the Commission's proposal, LECs would be permitted to make mid-term rate corrections.[11] While Centel supports the proposal to allow LECs to make mid-term rate corrections, those corrections would not protect LECs from inadequate earnings. Under the Commission's proposal, mid-term rate corrections would be prospective only. Accordingly, LECs would be unable to recover any known and measurable costs that have been incurred during the previous period. Centel submits there is no basis for excluding known and measurable cost changes from LECs' tariff filings.

3. Long Term Support Payments Should Be Given Exogenous Treatment.

In addition to permitting LECs to include known and measurable costs in their revenue requirements, the Commission proposes to give "costs triggered by action beyond the control of

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[10] Notice at ¶ 14. In its comments, Centel argued that this requirement is unreasonable. Known and measurable costs should be included in a LEC's revenue requirement even if the LEC's earnings are not below the low end of the earnings zone. A LEC should be allowed to target its rates at the authorized rate of return, and not at the lower earnings limit, to recover these legitimate costs.

[11] Id. at p. 5-6.

the carrier" exogenous cost treatment. Notice at ¶ 14. In its comments, the National Exchange Carrier Association, Inc. ("NECA") recommends that the LECs participating in the incentive plan should be permitted exogenous treatment of their Long Term Support ("LTS") obligations.[12] Centel supports that recommendation. By treating LTS obligations as exogenous, LECs will be able to pass-through changes in their LTS obligations in an expeditious and fair manner.

B. Baseline Rate of Return Regulation

In an effort to reduce the administrative burdens on LECs subject to baseline regulation, the Commission proposes to require tariff filings every other year. Notice at ¶ 43. While Centel supports the biennial filing option, Centel agrees with Cincinnati Bell Telephone Company ("CBT") that a LEC also should have the option to simply renew its tariff for a second year by certifying that it does not expect its current rates to earn in excess of the maximum allowable return.[13] Giving LECs under baseline regulation a certification option would advance the Commission's regulatory reform goals by eliminating unnecessary tariff filings.

III. CONCLUSION

Centel supports the Commission's efforts toward implementing regulatory reform for small and mid-sized LECs. The recommenda-

[12] Comments of NECA at pp. 14-15.

[13] Comments of CBT at pp. 15-16.

tions set forth herein and in Centel's initial comments represent reasonable improvements on the Commission's optional incentive and baseline regulation plans to benefit consumers, promote efficiency, and encourage infrastructure development.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I, Alethea R. Wilson, hereby certify that on this 28th day of September, 1992, copies of the foregoing Reply Comments of Central Telephone Company were served by U.S. mail, first class, postage prepaid upon the following parties:

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